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Transcript Exhibit(s)

Arizona Corporation Commission

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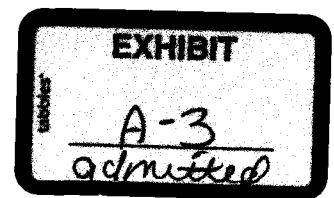
T-03346A-06-0203

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Exhibit #: A-1-A-7, 8-1, 8-2

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**REBUTTAL TESTIMONY OF RICK L. MOORE**

**Managing Director, Corporate Development  
AT&T Inc.**

**June 29, 2006**

**REBUTTAL TESTIMONY OF RICK L. MOORE**  
**on Behalf of AT&T Inc.**

1  
2

3 **Q. PLEASE STATE YOUR NAME AND TITLE.**

4 A. My name is Rick L. Moore and I am Managing Director of Corporate  
5 Development for AT&T.

6 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS**  
7 **MATTER?**

8 A. Yes. On May 8, 2006, I filed testimony in support of the Notice of Intent or,  
9 Alternatively, Request for Limited Waiver submitted by AT&T on March 31,  
10 2006 (the "Notice") with respect to its planned merger with BellSouth.<sup>1</sup>

11 **Q. HAVE YOU REVIEWED THE TESTIMONY FILED ON BEHALF OF**  
12 **UTILITIES DIVISION STAFF ("STAFF") BY MR. FIMBRES ON**  
13 **JUNE 21, 2006?**

14 A. Yes, I have. We certainly agree with the conclusions which Mr. Fimbres reaches  
15 as well as Staff's recommendation that the Commission should approve the  
16 AT&T/BellSouth merger. As Mr. Harralson and I discussed in our direct  
17 testimonies, BellSouth has no employees, no facilities and no local exchange  
18 service customers in Arizona. BellSouth Long Distance, Inc. ("BSLD"), the only  
19 BellSouth subsidiary certificated in Arizona, holds only long-distance resale  
20 authority. Even in comparison with other long-distance resale providers, BSLD  
21 has a very small amount of annual revenues and income. Those facts certainly  
22 support Mr. Fimbres' conclusions that the merger will have "essentially zero"

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<sup>1</sup> See investor disclosure statement attached as Exhibit A.

1 effects on competition and market share and should not result in force reductions  
2 in Arizona.<sup>2</sup>

3 **Q. AT PAGES 9-10 OF HIS TESTIMONY, MR. FIMBRES STATES STAFF'S**  
4 **RECOMMENDATION THAT THE COMMISSION APPROVE THE**  
5 **MERGER BASED ON THE MERGED ENTITY'S COMPLIANCE WITH**  
6 **CERTAIN RECOMMENDATIONS. I'LL SUMMARIZE AND ASK YOU**  
7 **TO ADDRESS EACH RECOMMENDATION. FIRST, HE**  
8 **RECOMMENDS ADVANCE NOTICE AND THEN SUBSEQUENT**  
9 **REPORTING TO THE COMMISSION OF ANY MERGER-RELATED**  
10 **LAYOFFS, PLANT CLOSINGS OR FACILITY CLOSINGS. IS THAT**  
11 **RECOMMENDATION ACCEPTABLE TO AT&T?**

12 **A. Yes.**

13 **Q. MR. FIMBRES ALSO RECOMMENDS CONTINUED COMPLIANCE**  
14 **WITH DECISION NO. 68269—THE COMMISSION'S APPROVAL OF**  
15 **THE SBC MERGER WITH AT&T IN NOVEMBER OF LAST YEAR. IS**  
16 **THAT RECOMMENDATION ACCEPTABLE TO AT&T?**

17 **A. Yes. As we indicated in the Notice, my testimony and Mr. Watts' March 29,**  
18 **2006 letter to the Commissioners, which is Exhibit 1 to Mr. Fimbres' testimony,**  
19 **AT&T will continue to comply with the notice, reporting and residential**  
20 **arbitration provisions of Decision No. 68269.**

21 **Q. FINALLY, STAFF RECOMMENDS THAT AT&T FILE, FOR**  
22 **COMMISSION APPROVAL, A PLAN TO REFUND DIRECTORY**  
23 **ASSISTANCE OVERCHARGES TO BUSINESS CUSTOMERS WITHIN**  
24 **30 DAYS OF THE ORDER APPROVING THE MERGER. IS THAT**  
25 **RECOMMENDATION ACCEPTABLE TO AT&T?**

26 **A. Yes. However, in a subsequent conversation our counsel had with Staff, because**  
27 **we have already developed a plan for giving billing credits to the affected**

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<sup>2</sup> Fimbres Testimony, p. 7, ll. 12-22 and p. 8, ll. 8-17.

1 business customers, we agreed to file that plan for Commission approval next  
2 week.

3 **Q. MR. MOORE, PLEASE SUMMARIZE THE KEY FEATURES AND**  
4 **BENEFITS OF THE AT&T/BELLSOUTH MERGER.**

5 A. As I discussed in my direct testimony, the Merger will not change either the  
6 ownership or control of any of AT&T's Arizona Operating Subsidiaries, nor will  
7 it change any of their rates, terms and conditions of service. The Commission  
8 will have precisely the same regulatory authority over them as it has today. All  
9 provisions of Decision No. 68269 concerning the SBC/AT&T merger will remain  
10 in full force and effect. The merged entity's ability to attract capital at reasonable  
11 rates and to continue to provide reliable service will be enhanced by the Merger.  
12 As Mr. Fimbres notes, BellSouth is a \$20 billion plus corporation which serves  
13 over 43 million access lines in nine southern states. The addition of this financial  
14 strength and customer base will create an even stronger competitor in Arizona.  
15 The merged entity's network will benefit from increased efficiency, higher  
16 reliability and reduced costs and will allow for faster and more economic  
17 introduction of new services and features for both residential and business  
18 customers. Finally, after the Merger, Cingular will be a "controlled affiliate" of  
19 AT&T and thus—under the terms of Decision No. 68269—Cingular's Arizona  
20 wireless customers will be able to participate in the residential arbitration program  
21 which the Commission concluded was an additional benefit of last year's  
22 SBC/AT&T merger.

23 **Q. PLEASE SUMMARIZE FOR THE COMMISSION THE STATUS OF**  
24 **REQUIRED APPROVALS FOR THE MERGER TRANSACTION.**

1 A. As we expected, the approval process has been moving very rapidly. As of the  
2 filing of this testimony, all necessary international approvals have been secured  
3 from Germany, Norway and the United Kingdom. Approval is required in 18  
4 states. Twelve of those states have already completed the approval process—  
5 including two of the six BellSouth states which require approval. Those states are  
6 Delaware, Florida,<sup>3</sup> Minnesota, New Hampshire, New Jersey, New York, North  
7 Carolina, Pennsylvania, Utah, Vermont, West Virginia and Wyoming. We  
8 currently project that all state approvals will be secured by the end of July, 2006.  
9 The Commission has a regular Open Meeting scheduled for July 25, 2006 and we  
10 would ask that the Commission approve the Merger at that Open Meeting.

11 **Q. MR. MOORE, DO YOU HAVE A RECOMMENDATION FOR THE**  
12 **COMMISSION?**

13 A. Yes. There have been no interventions on this matter. Staff's position is that the  
14 Merger should be approved with recommendations we accept. We would ask that  
15 the Commission enter its Order approving the Notice. To assist us in timely  
16 securing all necessary approvals, we'd also ask that it do so no later than the  
17 July 25, 2006 Open Meeting.

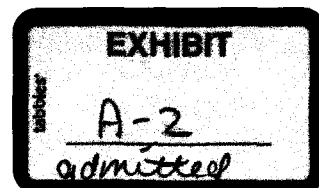
18 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

19 A. Yes.

20 17840-3/1381065

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<sup>3</sup> Florida does have a post-approval protest period which will expire on or about July 12, 2006.



**DIRECT TESTIMONY OF RICK L. MOORE**

**Managing Director, Corporate Development  
AT&T Inc.**

**May 8, 2006**

**DIRECT TESTIMONY OF RICK L. MOORE**  
**on Behalf of AT&T Inc.**

1  
2  
3   **Q.   PLEASE STATE YOUR NAME AND TITLE.**

4   A.   My name is Rick L. Moore. I am Managing Director of Corporate Development  
5       for AT&T.<sup>1</sup>

6   **Q.   PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND,**  
7       **WORK EXPERIENCE AND CURRENT JOB RESPONSIBILITIES.**

8   A.   I hold a Bachelor of Science degree in Economics from Southwest Missouri State  
9       University. I joined AT&T Inc. ("AT&T")—which was then known as  
10      Southwestern Bell Telephone Company—in 1976 and I held various sales,  
11      product marketing and product management positions before moving to strategic  
12      development matters in 1984. For more than twenty years, I have been involved  
13      in strategy development and I have been responsible for the analysis, negotiation  
14      and execution of dozens of transactions on behalf of AT&T Inc. and its affiliates.  
15      Today, I am responsible for certain of AT&T's mergers and acquisitions  
16      activities. For example, I was directly involved in the evaluation of strategic  
17      options in connection with AT&T's (then known as SBC Communications Inc.)  
18      decision to acquire AT&T Corp. and I testified before this Commission on that  
19      merger, which the Commission approved in November of last year. I have been  
20      involved directly in AT&T's decision to merge with BellSouth Corporation  
21      ("BellSouth").

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<sup>1</sup> See investor disclosure statement attached as Exhibit A.



1   **Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2   A.   The purpose of this testimony is to support the Notice of Intent or, alternatively,  
3       Request for Limited Waiver filed on March 31, 2006 by AT&T (the "Notice")  
4       with respect to its planned merger with BellSouth.

5   **Q.   PLEASE DESCRIBE THE PARTIES TO THE MERGER TRANSACTION**  
6   **AND THEIR ARIZONA OPERATING SUBSIDIARIES.**

7   A.   AT&T Inc. is a Delaware corporation with its principal place of business in  
8       San Antonio, Texas. It is the holding company parent, through intermediate  
9       subsidiaries, of three Class A Arizona subsidiaries and one non-Class A Arizona  
10      subsidiary. SBC Long Distance, LLC d/b/a SBC Long Distance/AT&T Long  
11      Distance is a Class A utility. SNET America, Inc. d/b/a SBC Long Distance  
12      East/AT&T Long Distance East is not a Class A utility. Both are authorized to  
13      provide competitive, local exchange, inter-exchange, competitive  
14      interLATA/intraLATA and in-state toll services. The other two Class A utilities  
15      are AT&T Communications of the Mountain States, Inc. and TCG Phoenix. They  
16      are authorized to provide competitive local exchange, intraLATA toll,  
17      inter-exchange and intraLATA services in Arizona. I'll refer to all four  
18      companies collectively as the Arizona Operating Subsidiaries.

19      BellSouth is a Georgia corporation and is the holding company parent of  
20      BellSouth Long Distance, Inc. ("BSLD"). Mr. Harralson provides further  
21      information on BellSouth and BSLD. But, it's my understanding that BSLD  
22      provides only a small amount of resold long distance in Arizona and is a Class C

1 utility. I also understand that BSLD does not have any facilities, switches, assets  
2 or employees in Arizona.

3 **Q. HOW WILL THE MERGER BE ACCOMPLISHED?**

4 A. The Agreement between AT&T and BellSouth is very similar in overall structure  
5 to last year's merger transaction between SBC and AT&T Corporation.  
6 BellSouth will be merged into an AT&T subsidiary that has been created for the  
7 purpose of facilitating the Merger. BellSouth will be the surviving entity of that  
8 merger for all legal purposes, and will become a wholly-owned subsidiary of  
9 AT&T Inc. BellSouth shareholders will receive 1.325 shares of AT&T stock for  
10 each share they own. Upon completion, former BellSouth shareholders will hold  
11 about 38% of AT&T's outstanding shares. Attached to my testimony as  
12 Exhibit B is a two-page exhibit which shows pre- and post-transaction  
13 Organizational Charts.

14 **Q. WILL THE CLOSING OF THE MERGER RESULT IN ANY CHANGE**  
15 **FOR THE ARIZONA OPERATING SUBSIDIARIES?**

16 A. No. The Merger transaction will not change either the ownership or control of  
17 any of the Arizona Operating Subsidiaries. The closing of the Merger will not  
18 change the current rates, terms and conditions of service of any of the Arizona  
19 Operating Subsidiaries. All will continue to exist in their current form and the  
20 Commission will retain the same regulatory authority that it possesses today over  
21 the Arizona Operating Subsidiaries.

1 Q. MR. MOORE, THE COMMISSION APPROVED THE MERGER OF SBC  
2 AND AT&T CORPORATION IN DECISION NO. 68269 DATED  
3 NOVEMBER 8, 2005 (THE "DECISION"). WILL THE AT&T/  
4 BELL SOUTH MERGER AFFECT ANY OF THE TERMS AND  
5 CONDITIONS OF THAT DECISION?

6 A. No. All conditions of the Decision will remain in full force and effect. AT&T  
7 will continue to comply with the notice, reporting and residential arbitration  
8 provisions of the Decision. With regard to the arbitration provisions, AT&T  
9 Senior Vice President and Associate General Counsel Wayne Watts recently  
10 wrote a letter to the Commissioners confirming AT&T's commitment to those  
11 provisions. I've attached a copy of that letter as Exhibit C to my testimony.

12 Q. IN RELATION TO THE ARIZONA OPERATING SUBSIDIARIES, WILL  
13 THE MERGER IMPAIR ANY OF THEIR FINANCIAL STATUS,  
14 PREVENT THEM FROM ATTRACTING CAPITAL AT FAIR AND  
15 REASONABLE TERMS OR IMPAIR THEIR ABILITY TO PROVIDE  
16 SAFE, REASONABLE AND ADEQUATE SERVICE?

17 A. No. AT&T, of course, has considerable financial strength to support these  
18 operations. Its 2005 reported revenues were almost \$44 billion.<sup>2</sup> As discussed in  
19 Mr. Harralson's testimony, BellSouth is also an A-rated utility and brings  
20 additional financial strength and revenues to the combined organization. The  
21 merged companies will have an improved financial status and continued access to  
22 capital at favorable rates, which will enhance our ability to continue to provide  
23 safe, reasonable and adequate service.

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<sup>2</sup> AT&T Inc.'s 2005 revenues include only a month-and-a-half of AT&T Corp. revenue following the November 18, 2005 close of the merger between SBC and AT&T Corp. Combined revenues would have been almost \$68 billion had the companies been combined for the full year. 2005 revenues also exclude over \$34 billion in revenues from Cingular Wireless.

1 Q. WILL THE MERGER NEGATIVELY AFFECT COMPETITION IN  
2 ARIZONA IN ANY MARKET SEGMENT?

3 A. No. For all intents and purposes, BSLD has a de minimis presence in Arizona  
4 today and has never had more than such a presence. It has no Arizona employees,  
5 facilities or local exchange customers. Thus, the Merger will result in no  
6 reduction in competition in Arizona.

7 Q. WILL THE MERGER HAVE POSITIVE BENEFITS FOR ARIZONA?

8 A. Although BSLD has a de minimis presence in the state and the Arizona Operating  
9 Subsidiaries are unaffected by the Merger, there are merger benefits in this state.  
10 For example, the Commission has stated that it believes a residential customer  
11 arbitration program is in the public interest (Decision, Finding 52 and Ordering  
12 Paragraphs at p. 17, ll. 4-17). Upon consummation of the proposed Merger,  
13 Cingular will become a "controlled affiliate" of AT&T and, therefore, its Arizona  
14 residential wireless customers will be able to participate in that program. Further,  
15 in Finding 54 of the Decision last year, the Commission identified potential  
16 Arizona benefits of the SBC/AT&T merger, including a stronger competitor than  
17 either company standing alone and technological advances made possible sooner  
18 to Arizona customers. We firmly believe that the addition of BellSouth's  
19 financial strength as well as its nine-state customer base will further enhance and  
20 strengthen these and other identified benefits. In that regard, we identified several  
21 benefits of the Merger at paragraphs 17-20 of the Notice which we believe serve  
22 the public interest. To summarize, those include better positioning the merged  
23 company to improve efficiency and to promote the development and deployment  
24 of new and improved services; integrating the separate IP networks of AT&T,

1 BellSouth and Cingular into a single network, which will generate increased  
2 efficiency, higher reliability and reduced costs and allow for faster and more  
3 economical introduction of new services and features for both residential and  
4 business customers; and, as with the SBC/AT&T merger, improving the  
5 economics of research and development by creating a broader, even more diverse  
6 base of customers, both in the enterprise and consumer space to which AT&T will  
7 be able to market the results of R&D—most notably by AT&T Labs.

8 Indeed, many of the network integration benefits that were projected for the  
9 SBC-AT&T merger are already benefiting customers today.<sup>3</sup> These benefits, such  
10 as reduced latency and packet loss, enhanced security and reduced network  
11 congestion, should translate into benefits for customers currently being served by  
12 BellSouth as well. For example, that would mean that a business based in  
13 Arizona with branch offices in the Southeastern United States should realize an  
14 increase in its service quality and reliability for data service. Likewise, a business  
15 based in the Southeastern United States should realize benefits in its data  
16 connection to branch offices in Arizona.

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<sup>3</sup> For more information regarding the status of AT&T's network integration initiatives from the SBC-AT&T merger, please see the Description of Transaction, Public Interest Showing and Related Demonstration filed by AT&T and BellSouth with the FCC on March 31, 2006; especially the Declaration of Christopher Rice, Executive Vice President, Network Planning and Engineering, AT&T Inc., attached thereto, at paragraphs 4-17.

1 **Q. PLEASE PROVIDE THE COMMISSION AN OVERVIEW OF MERGER**  
2 **APPROVALS IN OTHER STATES AND AT THE FEDERAL LEVEL.**

3 A. AT&T has filed requests for approval in eighteen (18) states. The parties also  
4 have made joint notice filings in an additional fourteen (14) states. As of the  
5 filing date of this testimony, two states where approval was required have already  
6 approved or chosen not to act on the Merger. The FCC and Department of Justice  
7 have established a timeline that would permit a ruling on the Merger, based on the  
8 expiration of the FCC's self-imposed 180-day deadline, by October 16, 2006. We  
9 are hopeful that the FCC and Department of Justice will act before that deadline.  
10 We would ask that this Commission approve the Notice as soon as possible.

11 **Q. MR. MOORE, DO YOU HAVE A RECOMMENDATION FOR THE**  
12 **COMMISSION?**

13 A. Yes. On behalf of the Applicants, we would request that the Commission enter its  
14 Order approving the Notice pursuant to A.A.C. R14-2-803. In order to assist us  
15 in timely securing all necessary state and federal approvals, we also ask that the  
16 Commission place this matter on its July 25, 2006 regularly scheduled Open  
17 Meeting agenda.

18 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

19 A. Yes.

20 1360221v5

**EXHIBIT A**

## EXHIBIT A

### NOTICE

#### Cautionary Language Concerning Forward-Looking Statements

We have included or incorporated by reference in this document financial estimates and other forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These estimates and statements are subject to risks and uncertainties, and actual results might differ materially from these estimates and statements. Such estimates and statements include, but are not limited to, statements about the benefits of the merger, including future financial and operating results, the combined company's plans, objectives, expectations and intentions, and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of the management of AT&T Inc. and BellSouth Corporation and are subject to significant risks and uncertainties and outside of our control.

Readers are cautioned that the following important factors, in addition to those discussed in this statement and elsewhere in the proxy statement/prospectus to be filed by AT&T with the SEC, and in the documents incorporated by reference in such proxy statement/prospectus, could affect the future results of AT&T and BellSouth or the prospects for the merger: (1) the ability to obtain governmental approvals of the merger on the proposed terms and schedule; (2) the failure of BellSouth shareholders to approve the merger; (3) the risks that the businesses of AT&T and BellSouth will not be integrated successfully; (4) the risks that the cost savings and any other synergies from the merger may not be fully realized or may take longer to realize than expected; (5) disruption from the merger making it more difficult to maintain relationships with customers, employees or suppliers; (6) competition and its effect on pricing, costs, spending, third-party relationships and revenues; (7) the risk that any savings and other synergies relating to the resulting sole ownership of Cingular Wireless LLC may not be fully realized or may take longer to realize than expected (8) final outcomes of various state and federal regulatory proceedings and changes in existing state, federal or foreign laws and regulations and/or enactment of additional regulatory laws and regulations; (9) risks inherent in international operations, including exposure to fluctuations in foreign currency exchange rates and political risk; (10) the impact of new technologies; (11) changes in general economic and market conditions; and (12) changes in the regulatory environment in which AT&T and BellSouth operate. Additional factors that may affect future results are contained in AT&T's, BellSouth's, and Cingular Wireless LLC's filings with the Securities and Exchange Commission ("SEC"), which are available at the SEC's website (<http://www.sec.gov>). Neither AT&T nor BellSouth is under any obligation, and expressly disclaim any obligation, to update, alter or otherwise revise any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

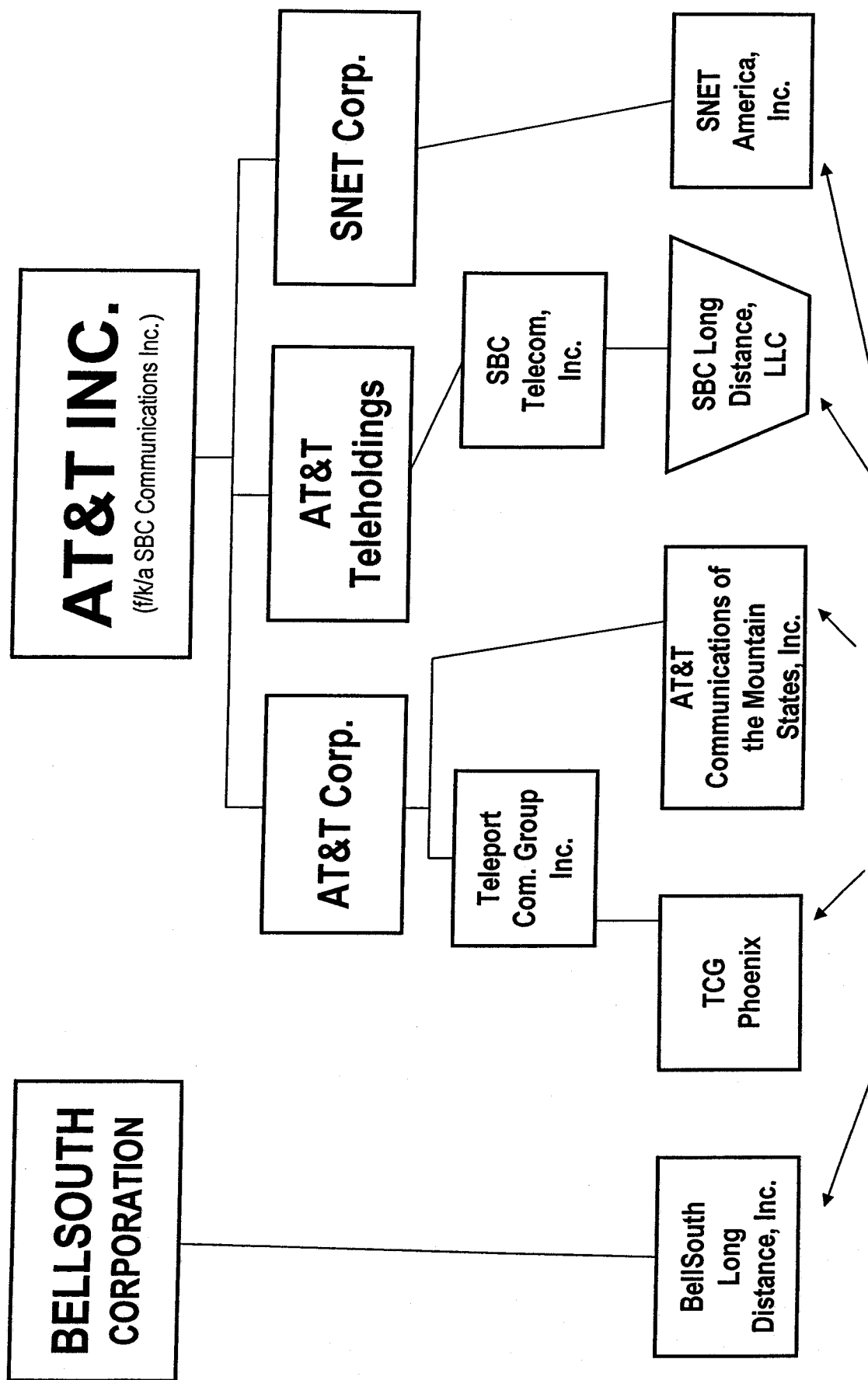
This document may contain certain non-GAAP financial measures. Reconciliations between the non-GAAP financial measures and the GAAP financial measures are available on the company's website at [www.sbc.com/investor\\_relations](http://www.sbc.com/investor_relations).

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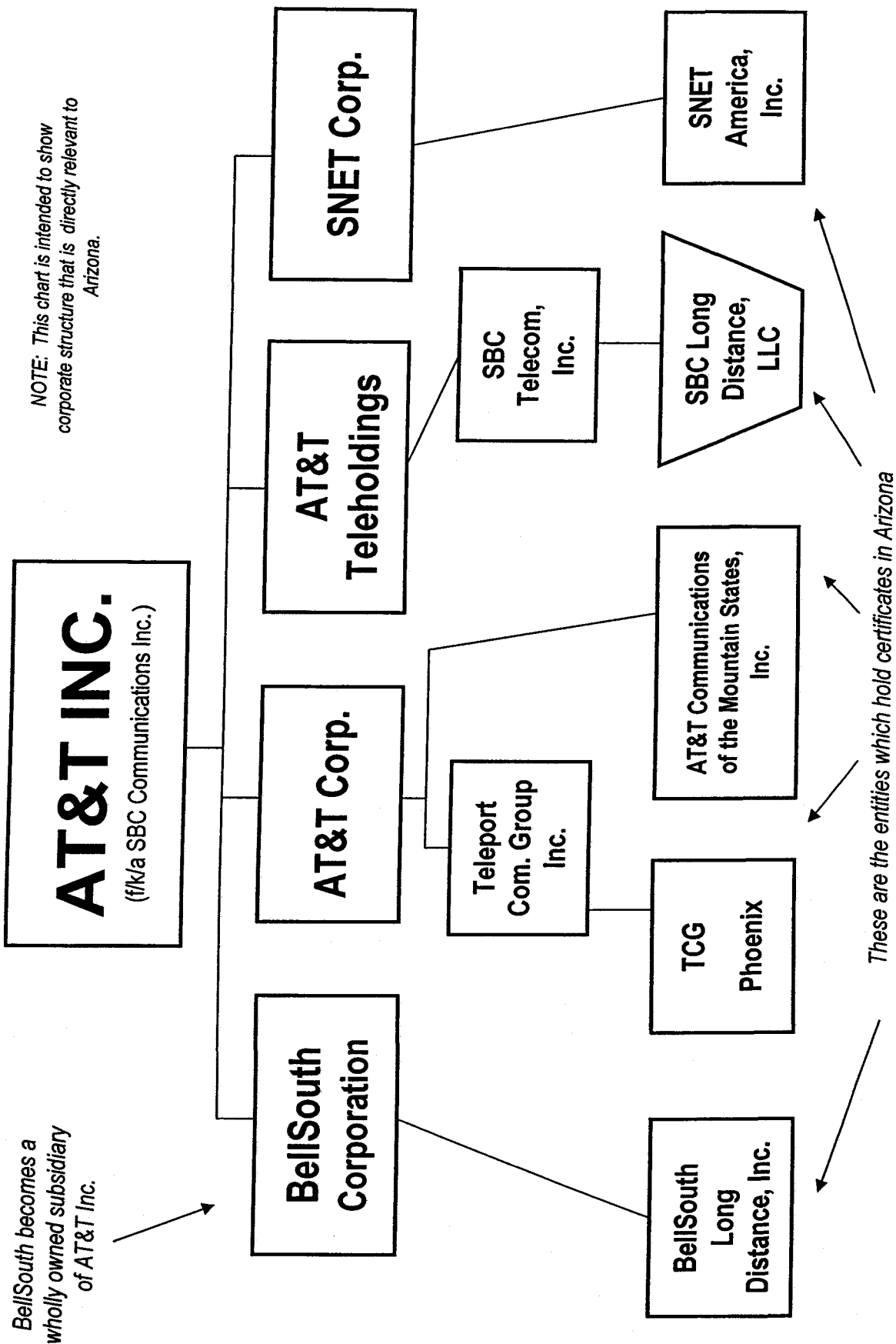
**EXHIBIT B**

# PRE-TRANSACTION CORPORATE STRUCTURE CHART



These are the entities which hold certificates in Arizona. This chart is intended to show corporate structure that is directly relevant to Arizona.

# POST TRANSACTION CORPORATE STRUCTURE CHART



**EXHIBIT C**



Wayne Watts  
Senior Vice President  
and Associate General Counsel  
175 E. Houston St., Room 1230  
San Antonio, TX 78205  
T: 210.351.3476  
F: 210.351.3257  
dw4808@att.com

March 29, 2006

**HAND DELIVERED**

Commissioner Jeff Hatch-Miller, Chairman  
Commissioner William A. Mundell  
Commissioner Marc Spitzer  
Commissioner Mike Gleason  
Commissioner Kristin K. Mayes

***Re: Decision No. 68269 and SB 1486***

Dear Commissioners:

As you know in Decision No. 68269, the Decision in which this Commission approved the merger of SBC Communications Inc. and AT&T Corp., we agreed to participate in a binding arbitration program administered by the Commission. The program relates solely to billing and unauthorized charge disputes by AT&T Arizona residential customers who purchase telecommunications services, including wireline, wireless and VOIP telephony services, offered by an AT&T controlled affiliate.

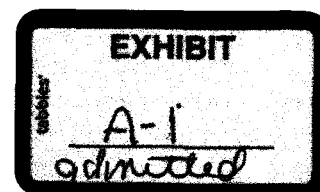
We have recently learned that the Arizona Legislature is considering SB 1486 which, in its present form would require that telecommunications providers consent to arbitration before the Commission has jurisdiction to hear such complaints regardless of prior orders it has entered such as Decision No. 68269. We do not support that legislation. Although we continue to encourage the Arizona Commission to adopt uniform standards that will apply to all providers, AT&T stands by the assurances it gave you in the discussions which lead to the entry of Decision No. 68269. It will continue to do so regardless of whether SB 1486 becomes law. Simply stated "a deal is a deal" and we intend to stand by ours.

We look forward to working with the Commission to assure that all consumers are given the telecommunications service of their choice.

Very truly yours,

Wayne Watts  
Senior Vice President and Associate General Counsel

cc: Ernest Johnson, Director, ACC Utilities Division (hand-delivered)  
Chris Kempley, Chief Counsel, Legal Division (hand-delivered)



**DIRECT TESTIMONY OF JAMES G. HARRALSON**

**Vice President/Associate General Counsel  
BellSouth Corporation**

**May 8, 2006**

DIRECT TESTIMONY OF JAMES G. HARRALSON  
on Behalf of BellSouth Corporation

**Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

A. My name is James G. (Jim) Harralson. My business address is BellSouth Corporation, Suite 1800, 1155 Peachtree Street, NE, Atlanta, Georgia, 30309-3610.\*

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

A. I am employed by BellSouth Corporation ("BellSouth") as its Vice President and Associate General Counsel-Regulatory and State Operations. In this position, I am responsible for the legal advice and representation associated with the company's matters pending before the Federal Communications Commission ("FCC"), state public service commissions, and local agencies that have regulatory authority over the company's business. In addition, I am responsible for the Legal Department's offices in our nine-state region and our Washington, DC legal office. I report to the company's General Counsel, and I have held this position since May, 2000.

**Q. WHAT IS YOUR WORK EXPERIENCE AND PROFESSIONAL BACKGROUND?**

A. I have been employed by BellSouth Corporation or one of its subsidiaries since December 1, 1983. I have held a variety of positions in the Legal Department of BellSouth, and I served as the company's head of regulatory and external affairs in Kentucky. I also served as Vice President and General Counsel of BellSouth Long Distance, Inc. ("BSLD") from 1996 until May, 2000. In that position, I helped create and obtain initial certifications for BSLD, which was our affiliate formed in anticipation of the long distance relief promised by the Telecommunications Act of 1996. I hold a

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\* See investor disclosure statement attached as Exhibit A.

1 Bachelor of Science in Business and Economics and a law degree,  
2 each from the University of Kentucky.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 A. The purpose of my testimony is to provide information concerning  
5 BellSouth and BSLD in relation to the Notice of Intent or,  
6 alternatively, Request for Limited Waiver filed on March 31, 2006  
7 by AT&T (the "Notice").

8 **Q. PLEASE DESCRIBE GENERALLY BELL SOUTH.**

9 A. BellSouth is the leading communications service provider in the  
10 nine southeastern states of Alabama, Florida, Georgia, Kentucky,  
11 Louisiana, Mississippi, North Carolina, South Carolina and  
12 Tennessee ("BellSouth Region"). Our business strategy is to be the  
13 leading choice of customers in those states for a wide array of retail  
14 and wholesale voice, data and internet services. We meet the out-  
15 of-region needs of customers through wholesale and teaming  
16 arrangements.

17 **Q. IS BELL SOUTH FINANCIALLY SOUND?**

18 A. Yes. BellSouth has paid a dividend in every quarter since its  
19 formation and has consistently attracted the capital necessary to  
20 meet the needs of its business activities. BellSouth long-term debt  
21 has an "A2" rating from Moody's and an "A" rating from Standard  
22 & Poor's, which are the same ratings given to the long-term debt  
23 issued by SBC Communications. The Merger will not create a  
24 financial risk for any of the entities providing service in Arizona.

25 **Q. WHAT TELECOMMUNICATIONS SERVICES DOES BSLD**  
26 **PROVIDE IN ARIZONA?**

27 A. BSLD holds a Certificate of Convenience and Necessity to provide  
28 resold interexchange service which was issued by the Commission  
29 in Decision No. 61689 dated May 13, 1999. BSLD only provides  
30 resold long distance service to a small number of customers in  
31 Arizona. During 2005, intrastate Arizona revenues for BSLD were



1 \$176,636. BSLD provided this service by reselling services of  
2 carriers that have facilities in Arizona. As I understand  
3 Commission Rule R14-2-103.A.3.q, BSLD is a Class C utility.  
4 This limited presence in Arizona is similar to our operations in  
5 other states outside the BellSouth Region. It is the result of our  
6 business strategy. As part of that strategy, we wanted our  
7 residential customers that travel to out-of-region locations to have  
8 the ability to make calling card calls. Similarly, we wanted to offer  
9 complementary out-of-region service to business customers that  
10 operate predominantly within our region, but that also have some  
11 out-of-region operations. While we have used various teaming and  
12 wholesale arrangements with other carriers to provide out-of-  
13 region services, we have not had the national network capabilities  
14 or operations integration needed to provide services to customers  
15 with substantial out-of-region needs. Obtaining those capabilities  
16 is an important reason BellSouth has entered into the Merger  
17 agreement with AT&T.

18 **Q. COULD YOU PROVIDE AN EXAMPLE OF SUCH BUSINESS**  
19 **SERVICE ARRANGEMENTS CURRENTLY?**

20 **A.** Yes. A bank with headquarters and substantial operations in the  
21 BellSouth Region has decided in the recent past to expand its  
22 operations in the Southwest, including Arizona. Because the bank  
23 is a customer in the BellSouth Region, we are familiar with its  
24 communications needs, and should be a competitive choice that  
25 integrates its out-of-region service with its BellSouth Region  
26 service. We are able to meet some customer needs through the  
27 wholesale arrangements we have today. After the Merger, the  
28 integration of our BellSouth Region network and systems with the  
29 national network and systems of AT&T will provide customers such  
30 as the bank with improved competitive choices for its critical data  
31 needs.

1       **Q.       HOW MANY EMPLOYEES DOES BSLD HAVE IN ARIZONA?**

2       A.       BSLD has no employees in Arizona.

3       **Q.       DOES BSLD OWN ANY TELECOMMUNICATIONS FACILITIES IN**  
4       **ARIZONA?**

5       A.       No.

6       **Q.       DOES BSLD OWN ANY ASSETS IN ARIZONA?**

7       A.       No.

8       **Q.       DOES BSLD PROVIDE LOCAL EXCHANGE SERVICE TO ANY**  
9       **ARIZONA CUSTOMERS?**

10      A.       No. As I mentioned, it is only certificated to provide resold long  
11      distance service.

12      **Q.       WILL THE MERGER HARM TELECOMMUNICATIONS**  
13      **COMPETITION IN ARIZONA?**

14      A.       No. Given BSLD's very limited presence and narrow focus in  
15      Arizona, the Merger will have virtually no impact on competition.

16      **Q.       WILL THE MERGER HAVE POSITIVE BENEFITS FOR**  
17      **ARIZONA?**

18      A.       We believe it will. Even though BellSouth has a very limited  
19      presence here, we believe it will have positive benefits. Arizona,  
20      like the rest of the country, will benefit by the presence of a strong,  
21      innovative, and integrated AT&T. As Mr. Moore discusses in his  
22      testimony, BellSouth brings its financial strength and nine-state  
23      network, mass market and business customer base to the Merger  
24      with AT&T. The merged company will be better positioned to  
25      provide more reliable and higher quality competitive service to all  
26      customers through the integration of the networks of legacy SBC,  
27      legacy AT&T, Cingular and BellSouth. The presence of an even  
28      stronger competitor will provide public interest benefits to all  
29      Americans, including Arizonans.

1       **Q.       DO YOU HAVE A RECOMMENDATION?**

2       A.       Yes. I recommend the Commission act as quickly as possible to  
3       approve the Notice.

4       **Q.       DOES THIS CONCLUDE YOUR TESTIMONY?**

5       A.       Yes.

6  
7       17840-3/1360974v5

8

**EXHIBIT A**

## EXHIBIT A

### NOTICE

#### Cautionary Language Concerning Forward-Looking Statements

We have included or incorporated by reference in this document financial estimates and other forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These estimates and statements are subject to risks and uncertainties, and actual results might differ materially from these estimates and statements. Such estimates and statements include, but are not limited to, statements about the benefits of the merger, including future financial and operating results, the combined company's plans, objectives, expectations and intentions, and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of the management of AT&T Inc. and BellSouth Corporation and are subject to significant risks and uncertainties and outside of our control.

Readers are cautioned that the following important factors, in addition to those discussed in this statement and elsewhere in the proxy statement/prospectus to be filed by AT&T with the SEC, and in the documents incorporated by reference in such proxy statement/prospectus, could affect the future results of AT&T and BellSouth or the prospects for the merger: (1) the ability to obtain governmental approvals of the merger on the proposed terms and schedule; (2) the failure of BellSouth shareholders to approve the merger; (3) the risks that the businesses of AT&T and BellSouth will not be integrated successfully; (4) the risks that the cost savings and any other synergies from the merger may not be fully realized or may take longer to realize than expected; (5) disruption from the merger making it more difficult to maintain relationships with customers, employees or suppliers; (6) competition and its effect on pricing, costs, spending, third-party relationships and revenues; (7) the risk that any savings and other synergies relating to the resulting sole ownership of Cingular Wireless LLC may not be fully realized or may take longer to realize than expected; (8) final outcomes of various state and federal regulatory proceedings and changes in existing state, federal or foreign laws and regulations and/or enactment of additional regulatory laws and regulations; (9) risks inherent in international operations, including exposure to fluctuations in foreign currency exchange rates and political risk; (10) the impact of new technologies; (11) changes in general economic and market conditions; and (12) changes in the regulatory environment in which AT&T and BellSouth operate. Additional factors that may affect future results are contained in AT&T's, BellSouth's, and Cingular Wireless LLC's filings with the Securities and Exchange Commission ("SEC"), which are available at the SEC's website (<http://www.sec.gov>). Neither AT&T nor BellSouth is under any obligation, and expressly disclaim any obligation, to update, alter or otherwise revise any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

This document may contain certain non-GAAP financial measures. Reconciliations between the non-GAAP financial measures and the GAAP financial measures are available on the company's website at [www.sbc.com/investor\\_relations](http://www.sbc.com/investor_relations).

The cites to webpages in this document are for information only and are not intended to be active links or to incorporate herein any information on the websites, except the specific information for which the webpages have been cited.

# AT&T COMMUNICATIONS OF THE MOUNTAIN STATES

## REVISED RESPONSE TO DATA REQUEST

DOCKET NOS.: T-02428A-06-0203; T-03016A-06-0203; T-03287A-06-0203;  
T-03346A-06-0203; T-03116A-06-0203

Data Request No.: STF 1.2

Received: 05/24/06

Requester: Armando Fimbres

Respondent: Alithia Bruinton,  
Senior Specialist

Date Responded: 06/02/06

Date Revised: 07/05/06

AT&T Enterprise Services, Bedminster, NJ

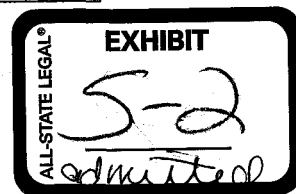
**Question:** Please clarify the directory assistance overcharging situation involving TCG and AT&T business customers that AT&T discussed with Staff earlier in 2006.

**Response:** *Revised July 5, 2006:*

AT&T's June 2, 2006 data request response was based on estimates of the number of customer accounts falling into each of the call groups during the study period. As AT&T continued to work on the refund issue after submitting its data request response, it was able to refine its refund process. Instead of estimating the number of affected customers during the study period, AT&T was able to calculate the exact number of customers in each call category. Then, using those specific customer counts, we calculated the appropriate refund amount.

Thus, we have calculated the amount of the refunds based on the weighting of the average number of calls made by each customer with the aggregate refund being at least as much as the amount of our overcharge.

A. Number of DA Calls Per Month During the Study Period	B. Average Number of DA Calls	C. Number of Customers in the Call Group	D. One-time Credit to Be Posted on Customer's Account	E. Cost of Credit to AT&T (C x D)
1 - 5	3	2433	\$81.00	\$197,073
6 - 10	8	180	\$215.00	\$38,700
11 - 21	15	30	\$403.00	\$12,090
TOTAL AMOUNT TO BE CREDITED / REFUNDED:				\$247,863



When the credits are applied to customer accounts, AT&T anticipates that the credits will result in the full amount of the overcharge being returned to the impacted customer groups as billing credits.

Number of DA Calls per month during study period	One-time credit to be posted on customer's account
1 – 5	\$ 81.00
6 – 10	\$ 215.00
11 – 21	\$ 403.00

Using the available data, AT&T has also identified business customers which have left the system. Checks will be issued to them based upon the same methodology.

LEGAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

2006 JUN 21 P 1:01

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LEGAL DIV.  
ARIZ. CORPORATION COMMISSION

IN THE MATTER OF THE NOTICE OF  
INTENT BY AT&T INC. PURSUANT TO  
A.A.C. R14-2-803 OR, ALTERNATIVELY,  
FOR A LIMITED WAIVER OF THE  
COMMISSION'S AFFILIATED INTERESTS  
RULES

DOCKET NO. T-02428A-06-0203  
T-03016A-06-0203  
T-03116A-06-0203  
T-03287A-06-0203  
T-03346A-06-0203

**STAFF'S NOTICE OF FILING OF DIRECT  
TESTIMONY**

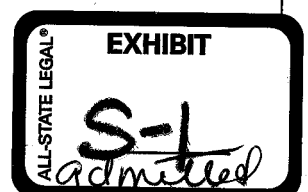
Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of Armando Fimbres of the Utilities Division in the above-referenced matter. A confidential version of Armando Fimbres' testimony has also been provided under seal to the Commissioners, their Aides, the assigned Administrative Law Judge.

RESPECTFULLY submitted this 21<sup>st</sup> day of June, 2006.

*Maureen A. Scott*  
Maureen A. Scott, Senior Staff Counsel  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

Original and thirteen (13) copies  
of the foregoing were filed this  
21st day of June, 2006 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007





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**BEFORE THE ARIZONA CORPORATION COMMISSION**

JEFF HATCH-MILLER

Chairman

WILLIAM A. MUNDELL

Commissioner

MARC SPITZER

Commissioner

MIKE GLEASON

Commissioner

KRISTIN K. MAYES

Commissioner

IN THE MATTER OF THE NOTICE OF INTENT	)	DOCKET NOS. T-02428A-06-0203
BY AT&T INC. PURSUANT TO A.A.C. R14-2-803	)	T-03016A-06-0203
OR, ALTERNATIVELY, FOR A LIMITED	)	T-03287A-06-0203
WAIVER OF THE COMMISSION'S AFFILIATED	)	T-03346A-06-0203
<u>INTERESTS RULES</u>	)	T-03116A-06-0203

DIRECT

TESTIMONY

OF

ARMANDO FIMBRES

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

REDACTED

JUNE 21, 2006

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**EXECUTIVE SUMMARY**  
**AT&T COMMUNICATIONS OF THE MOUNTAIN STATES, INC.,**  
**TCG PHOENIX, BELL SOUTH LONG DISTANCE, INC.,**  
**SBC LONG DISTANCE, LLC, SNET AMERICA, INC.**  
**DOCKET NOS. T-02428A-06-0203, T-03016A-06-0203, T-03287A-06-0203,**  
**T-03346A-06-0203, T-03116A-06-0203**

AT&T Corporation ("AT&T") and BellSouth Corporation ("BellSouth") have very different competitive positions within the Arizona telecommunications marketplace. AT&T is a well-established corporation providing local exchange and long distance service in the state of Arizona, while BellSouth has essentially zero presence.

AT&T has a significant and measurable share of Arizona's telecommunications market while BellSouth's presence in Arizona is strategic at best.

The parties have almost no overlap in their Arizona operations. Combining the separate operations of AT&T and BellSouth should not result in duplicate operations in Arizona that would require force reductions and the realignment of resources.

AT&T has already decided to curtail its local exchange operations in Arizona. A merger with BellSouth is not likely to change that decision.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Armando Fimbres. I am a Public Utilities Analyst V employed by the  
4 Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division  
5 ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.  
6

7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst V.**

8 A. In my capacity as a Public Utilities Analyst, I provide information and analysis to Staff on  
9 telecommunications tariff filings, emerging industry issues, such as VoIP, and matters  
10 pertaining to major applications, such as the merger application filed by SBC and AT&T.  
11

12 **Q. Please describe your educational background and professional experience.**

13 A. I received a Bachelor of Science degree from the University of Arizona in 1972 and have  
14 taken business and management courses at Seattle University, Northwestern University  
15 and the University of Southern California. I was employed for nearly twenty-nine years in  
16 Bell System or Bell System-derived companies, such as Western Electric, Pacific  
17 Northwest Bell, U S WEST and Qwest. The last twenty years of my Bell System  
18 telecommunications experience were in operations planning, corporate planning, or  
19 strategic planning roles with a special emphasis from 1994 to 2000 on competitive and  
20 strategic analysis for the Consumer Services Marketing division of U S WEST and  
21 similarly from 2000 to 2001 for Qwest. I have been with the Arizona Corporation  
22 Commission Utilities Division since April 2004.

1 **Q. What is the scope of your testimony in this case?**

2 A. I will address the competitive environment in which the merger between AT&T  
3 Corporation ("AT&T")<sup>1</sup> and BellSouth Corporation ("BellSouth") is being evaluated. My  
4 testimony will focus on the Arizona intrastate long distance and local exchange markets.  
5

6 **BACKGROUND**

7 **Q. What is the purpose of your testimony?**

8 A. In addition to providing information on the general competitive environment in which the  
9 AT&T/BellSouth application is being evaluated, I will provide specifics regarding  
10 AT&T's and BellSouth's competitive situation pertaining to the approval of this merger  
11 and respond to the Direct Testimony of AT&T and BellSouth witnesses in this matter<sup>2</sup>.  
12

13 **Q. Explain the primary information sources used in your analysis?**

14 A. I have relied on information obtained in other proceedings such as the SBC/AT&T  
15 merger, Docket T-03346A-05-0149, as well as information provided by the applicants in  
16 this proceeding. I have also made use of Annual Report information filed by all  
17 telecommunication providers with the Commission.  
18

19 **GENERAL COMPETITIVE ENVIRONMENT**

20 **Q. What is the general competitive environment pertaining to the AT&T/BellSouth**  
21 **application?**

22 A. Since only a few months have elapsed between the time the SBC/AT&T merger was  
23 approved and the filing of this merger application, the general state of local exchange  
24 competition in Arizona has not changed dramatically. Arizona's telecommunications

---

<sup>1</sup> The consolidated entity resulting from the merger of SBC and AT&T.

<sup>2</sup> Direct Testimony of Rick L. Moore, AT&T Inc., May 8, 2006; Direct Testimony of James G. Harralson, BellSouth Corporation, May 8, 2006

environment is dominated by Qwest, an ILEC, and Cox, a CLEC affiliate of the dominant video cable provider in Arizona<sup>3</sup>.

**Q. Can you describe some of the key factors in the general competitive environment?**

A. The AT&T/BellSouth merger application is being evaluated in basically the same environment that Staff summarized in the SBC/AT&T merger, as follows:

1. A very important general factor in Arizona's competitive environment is market size. Arizona is second only in size to Washington State within Qwest's incumbent local exchange carrier ("ILEC") region<sup>4</sup>. Arizona's position near or at the top in growth<sup>5</sup> nationally should be a magnet for local exchange competition and deployment of many telecommunications alternatives and technologies.
2. Nonetheless, Staff believes that wireline or local exchange competition in its traditional sense has slowed and some could argue that the size of the local exchange market is actually in decline<sup>6</sup>. At the time of the 1984 AT&T Divestiture, the penetration of main lines in homes was believed to be very high, approaching a main line in every home, and the wireline provider focus turned to providing additional lines. Competitive alternatives have since impacted both main and additional line markets. Even more significant has been the impact of competitive alternatives on the long distance market.<sup>7</sup>
3. Wireline competition, associated with local exchange service and enabled by the 1996 Telecommunications Act, has declined, in part because of changes in the Federal

---

<sup>3</sup> Direct Testimony of Armando Fimbres, Utilities Division, Arizona Corporation Commission, June 28, 2005, T-03346A-05-0149 et. al; Direct Testimony of Armando Fimbres, Utilities Division, Arizona Corporation Commission, June 28, 2005, T-01051B-03-0454

<sup>4</sup> United States Census 2000, Table 1, States Ranked by Population

<sup>5</sup> United States Census 2000 Projections, Table 1: Interim Projections: Ranking of Census 2000 and Projected 2030 State Population and Change: 2000 to 2030

<sup>6</sup> Local Telephone Competition: Status as of June 30, 2005, (FCC) Industry Analysis and Technology Division, Wireline Competition Bureau, April 2006, Table 1

<sup>7</sup> Trends in Telephone Service (FCC), June 21, 2005



1 Communications Commission's ("FCC") Unbundled Network Element ("UNE")  
2 rules<sup>8</sup> and in part because of the continuing evolution of technology which addresses  
3 areas of customer demand that are difficult to satisfy with traditional wireline service.

4 4. Wireless competition has experienced enormous growth over the last few years. In  
5 Arizona, the number of wireless phones is approaching the number of wireline  
6 phones<sup>9</sup>. Wireless and internet email are believed to have been significant factors in  
7 the downward movement of long distance rates.

8 5. Voice over Internet Protocol ("VoIP"), Wireless Fidelity ("WiFi") and Worldwide  
9 Interoperability of Microwave Access ("WiMAX") are perhaps the most current  
10 examples of technologies<sup>10</sup> that are impacting the local exchange and long distance  
11 markets. More recently, Internet Protocol-based TV ("IPTV") has gained considerable  
12 attention. All are technologies that may not yet have much direct impact on local  
13 exchange wireline voices services but, nonetheless, compete for the discretionary end-  
14 user dollars available for local exchange and long distance services.

15  
16 **Q. Have the number of competitive local exchange carriers ("CLECs") competing in the**  
17 **Arizona local exchange market changed measurably since the SBC/AT&T merger?**

18 A. No. The key participants remain the same – AT&T, Arizona DialTone, Cox, MCI<sup>11</sup>,  
19 McLeodUSA and Eschelon. In Decision 68447, the Commission granted<sup>12</sup> Qwest  
20 Communications Corporation ("QCC") CLEC authority for the Enterprise Market. As  
21 stated in the testimony of AT&T and BellSouth witnesses, BellSouth is not certificated to  
22 provide Local Exchange Service within Arizona and as such has zero CLEC presence.

---

<sup>8</sup> FCC-04-0290, TRO Remand Order, December 15, 2004

<sup>9</sup> 12/22/04, "Federal Communications Commission Releases Data On Local Telephone Competition",  
Table 9, Table 13

<sup>10</sup> Direct Testimony of Armando Fimbres, Utilities Division, Arizona Corporation Commission, June 28, 2005, T-03346A-05-0149 et. al; Direct Testimony of Armando Fimbres, Utilities Division, Arizona Corporation Commission, June 28, 2005, T-01051B-03-0454

<sup>11</sup> MCI has merged with Verizon but their Arizona CLEC is still using the MCI brand.

<sup>12</sup> Decision 68447 was ordered February 2, 2006

1 **Q. Does Staff note any major changes in long distance services in Arizona since the**  
2 **SBC/AT&T merger?**

3 A. No. A few long distance resellers have exited the market but their exits were not major  
4 surprises and of little impact and they have been replaced by new entrants. Staff sees  
5 these minimal changes in the long distance market as representative of the highly  
6 competitive situation that exists in long distance.

7  
8 **AT&T'S COMPETITIVE SITUATION**

9 **Q. Has AT&T's competitive situation changed since the SBC/AT&T merger?**

10 A. No.

11  
12 **Q. What is AT&T's competitive situation specific to Arizona?**

13 A. AT&T is still one of the largest CLEC providers of business services in Arizona.  
14 However, AT&T's withdrawal from UNE-P based residential services has continued. If  
15 AT&T is returning to mass market competition in Arizona, Staff is unaware of the effort.

16  
17 **Q. Has AT&T agreed to comply with the conditions ordered by the Commission in the**  
18 **SBC/AT&T merger?**

19 A. Yes. On March 29, 2006, AT&T filed a letter in Docket No. T-03346A-05-0149, related  
20 to Decision 68269. In that filing, AT&T expressed its willingness to support the  
21 conditions within Decision 68269, even if SB 1486<sup>13</sup> should become law.<sup>14</sup> The letter  
22 from AT&T is attached as Exhibit 1. AT&T witness, Rick Moore, amplifies that position

---

<sup>13</sup> SB 1486 would prohibit the Arizona Corporation Commission from subjecting a wireless telecommunications provider to arbitration unless the provider and customer consent in writing. It also states the ACC can arbitrate disputes involving telecommunications services in a bundle of services that the ACC has jurisdiction over.

<sup>14</sup> SB-1486 was signed into law by Governor Napolitano on May 31, 2006.

1 with his testimony<sup>15</sup> - "AT&T will continue to comply with the notice, reporting and  
2 residential arbitration provisions of the Decision."  
3

4 **Q. Please summarize your conclusions about AT&T's competitive situation in Arizona?**

5 A. (1) AT&T is still providing CLEC service to a significant number of business customers  
6 in Arizona.

7 (2) AT&T's CLEC position with residence customers should be declining given its  
8 announcement to discontinue marketing residence customers in Arizona and other  
9 states.

10 (3) AT&T's dominant position in long distance service has diminished due in part to  
11 wireless and internet alternatives. However, its revenue position in Arizona suggests  
12 that AT&T remains a major force in traditional long distance.  
13

14 **BELLSOUTH'S COMPETITIVE SITUATION**

15 **Q. What is BellSouth's general competitive situation?**

16 A. BellSouth is one of the seven RBOCs divested from AT&T in 1984 but, unlike SBC and  
17 Verizon<sup>16</sup>, BellSouth has not sought major acquisitions as a path to corporate growth. The  
18 most noteworthy venture of BellSouth is the Cingular Wireless entity formed in  
19 partnership with SBC (now AT&T). BellSouth is a \$20 Billion plus corporation  
20 headquartered in Atlanta, serving over 43 million access lines in 9 southern states.  
21 Arizona is not known to be a factor in BellSouth's competitive plans. [REDACTED]  
22

<sup>15</sup> Direct Testimony of Rick L. Moore, Managing Director, Corporate Development AT&T Inc., May 8, 2006, page 4

<sup>16</sup> E.g., SBC acquisitions of Ameritech, Pacific Telesis and SNET; Verizon formed by merger of NYNEX and Bell Atlantic and acquisition of GTE

1     **Q.     What is BellSouth's competitive situation specific to Arizona?**

2     A.     BellSouth has almost no presence in Long Distance and zero presence in Local Exchange  
3            services.

4  
5     **Q.     Please summarize your conclusions about BellSouth's competitive situation in**  
6            **Arizona?**

7     A.     (1)   BellSouth has almost no presence in Long Distance Service within Arizona.

8            (2)   BellSouth has no certificate to provide Local Exchange Service within Arizona.

9            (4)   BellSouth annual revenues ts Arizona operations are de minimums. [REDACTED]  
10

11     **SUMMARY AND CONCLUSIONS**

12     **Q.     If the merger between AT&T and BellSouth is approved by the Commission, what is**  
13            **the impact on the competitive situation for CLEC telecommunications providers in**  
14            **Arizona?**

15     A.     Any traditional analysis of the merger's impact on market structure indicates that AT&T  
16            and BellSouth competitive positions in Arizona overlap even less that the positions of  
17            SBC and AT&T, which had little overlap. Therefore, the likelihood that the merger of  
18            BellSouth and AT&T will result in reduced competition is essentially zero.  
19

20     **Q.     Will the merger of AT&T and BellSouth significantly change the market share**  
21            **situation?**

22     A.     No.  
23

1     **Q.     Is there a way to actually measure the combined market impact of the SBC and**  
2     **AT&T merger?**

3     A.     Staff has used the Herfindahl-Hirschman Index ("HHI") to gauge the level of market  
4     concentration in other mergers and related matters. The HHI analysis in the SBC/AT&T  
5     merger disclosed zero impact. BellSouth's market share is also believed to be very small,  
6     therefore, the HHI impact can confidently be assumed to be zero.

7  
8     **Q.     Please summarize your conclusions about the impact of BellSouth's merger with**  
9     **AT&T in Arizona?**

10    A.     (1)   AT&T's and BellSouth's competitive positions in Arizona are very different.  
11           (2)   Combining the separate operations of AT&T and BellSouth should not result in  
12           duplicate operations in Arizona that would require force reductions and the  
13           realignment of resources.  
14           (3)   AT&T has a significant and measurable share of Arizona's telecommunications  
15           market while BellSouth's presence in Arizona is essentially non-existent.  
16           (4)   AT&T has already decided to curtail its local exchange operations in Arizona. A  
17           BellSouth merger with AT&T should not add harm to that decision.

18  
19    **Q.     Are there any other issues to consider?**

20    A.     Yes. In early 2006, AT&T informed Staff of a Directory Assistance overcharge situation  
21           with AT&T business customers that occurred between March 2002 and August 2005. As  
22           conveyed to Staff by AT&T representatives, this overcharge took place co-incident with  
23           an authorized Directory Assistance rate increase for TCG customers. The increase,  
24           however, was not authorized for AT&T business customers. While AT&T restored the  
25           Directory Assistance rate for AT&T business customers to the authorized level, no official

1 solution has been reached for refunding the overcharged amount to AT&T business  
2 customers. Staff recommends that this issue be addressed in this proceeding.

3  
4 **Q. Do you recommend the AT&T merger with BellSouth be approved?**

5 A. Yes, on the condition that AT&T and BellSouth (or the merged entity) comply with the  
6 following recommendations:

7  
8 That for one year following merger close or until AT&T and BellSouth inform the  
9 Commission by filing an affidavit with Docket Control, as a compliance item in this  
10 docket, that merger-related activities are completed, whichever comes last, AT&T and  
11 BellSouth shall provide written notification to the Director of the Utilities Division and to  
12 the individual members of the Commission 60 days prior to any planned merger-related  
13 Arizona workforce layoffs; any planned merger-related Arizona plant closings; and any  
14 planned merger-related Arizona facility closings.

15  
16 That if the newly Merged Company, or any of its regulated affiliates, chooses to conduct  
17 layoffs or facility closings in Arizona that are attributable to the Merger, it shall file a  
18 report within two months of the effective date of the layoffs or closings with the  
19 Commission stating why it was necessary to do so and what efforts the Company made or  
20 is making to re-deploy those individuals elsewhere in the Company. This report shall also  
21 state whether any savings associated with facility closings have been re-invested in the  
22 Company's Arizona operations, and if not, why. This report shall be filed for one year  
23 following merger close or until AT&T and BellSouth inform the Commission by filing an  
24 affidavit with Docket Control that merger related activities are completed, whichever  
25 comes last.  
26

1 Pursuant to a letter docketed on March 26, 2006 by AT&T in T-03346A-05-0149, the  
2 newly Merged Company, and any of its regulated affiliates, shall continue to comply with  
3 conditions ordered in Decision 68269 on November 8, 2005 pertaining to the SBC merger  
4 with AT&T.

5  
6 **Q. Do you have any additional recommendations?**

7 A. Yes. Staff recommends that AT&T be required to file, for Commission approval, a plan  
8 for refunding the Directory Assistance overcharges to AT&T business customers, as  
9 explained earlier, within 30 days of a Commission order approving this merger.

10  
11 **Q. Does this conclude your direct testimony?**

12 A. Yes, it does.

## Exhibit 1





Wayne Watts  
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and Associate General Counsel  
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March 29, 2006

**RECEIVED**

MAR 30 2006

Z Corporation Commission  
Director of Utilities

**HAND DELIVERED**

Commissioner Jeff Hatch-Miller, Chairman  
Commissioner William A. Mundell  
Commissioner Marc Spitzer  
Commissioner Mike Gleason  
Commissioner Kristin K. Mayes

*Re: Decision No. 68269 and SB 1486*

Dear Commissioners:

As you know in Decision No. 68269, the Decision in which this Commission approved the merger of SBC Communications Inc. and AT&T Corp., we agreed to participate in a binding arbitration program administered by the Commission. The program relates solely to billing and unauthorized charge disputes by AT&T Arizona residential customers who purchase telecommunications services, including wireline, wireless and VOIP telephony services, offered by an AT&T controlled affiliate.

We have recently learned that the Arizona Legislature is considering SB 1486 which, in its present form would require that telecommunications providers consent to arbitration before the Commission has jurisdiction to hear such complaints regardless of prior orders it has entered such as Decision No. 68269. We do not support that legislation. Although we continue to encourage the Arizona Commission to adopt uniform standards that will apply to all providers, AT&T stands by the assurances it gave you in the discussions which lead to the entry of Decision No. 68269. It will continue to do so regardless of whether SB 1486 becomes law. Simply stated "a deal is a deal" and we intend to stand by ours.

We look forward to working with the Commission to assure that all consumers are given the telecommunications service of their choice.

Very truly yours,

Wayne Watts  
Senior Vice President and Associate General Counsel

cc: Ernest Johnson, Director, ACC Utilities Division (hand-delivered)  
Chris Kempley, Chief Counsel, Legal Division (hand-delivered)

## Exhibit 2

**[REDACTED]**